



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/143C

20 July 2015

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

Frequently asked questions on the Basel III leverage ratio framework

To promote consistent global implementation of the Basel III leverage ratio requirements, the Basel Committee on Banking Supervision (“BCBS”) has recently published a document¹ setting out a number of frequently asked questions (“FAQs”) that provides technical elaboration and interpretative guidance relating to various areas of the Basel III leverage ratio framework, including:

- (i) criteria for the recognition of cash variation margin associated with derivative exposures;
- (ii) calculation of centrally cleared client derivative exposures;
- (iii) calculation of exposures and netting of securities financing transactions (SFTs);
- (iv) treatment of netting of SFTs and derivatives under a cross-product netting agreement;
- (v) exposure measure under the additional treatment for credit derivatives; and
- (vi) treatment of long settlement transactions and failed trades.

For the purpose of completing the HKMA’s Quarterly Template on Leverage Ratio (which involves institutions calculating their leverage ratio according to the BCBS methodology under Basel III outlined in Annex 1 of the reporting package released on

¹ Please see <http://www.bis.org/bcbs/publ/d327.pdf>

19 May 2014), institutions are expected to take into account the guidance set out in the FAQs in calculating their leverage ratio.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

c.c. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn. Mr Jackie Liu)